

2022 Country Market Profile: Malaysia

Euromonitor reports that Malaysia's economy started to recover over 2021, driven by economic stimulus measures, recovering private consumption and strong exports. Economic growth is projected to gain further momentum in 2022, supported by robust external demand, recovering domestic activity, improving labor market conditions and ongoing policy support. Nevertheless, pandemic-related risks, supply chain disruptions and political uncertainty in the country pose downside risks.

- Following real gross domestic product (GDP) growth of 3.4% in 2021, Malaysia's economy is expected to expand at an average annual real rate of 3.9% over the medium term.
- The inflation rate in Malaysia is forecast to stabilize at around 2.5% over the medium term.
- As Malaysia's exports increased by 25.1% and imports rose by 25.0% during 2021, the country remained a net exporter.
- Foreign direct investment (FDI) inflows in Malaysia surged over 2021
- Public debt in Malaysia rose to 69.1% of GDP in 2021 from 67.4% in 2020, compared to the regional average of 94.7%

During 2022 the Malaysian population is projected reach 33.8 million (CIA World Factbook Est.). That is 10.8 million more than in 2000. Malaysia's population will continue to grow, albeit at a decreasing rate, for the next few decades because of its large number of reproductive-age women. The youth population has been shrinking, and the working-age population (15-64 year olds) has been growing steadily.

Malaysia's labor market has successfully absorbed the increasing number of job seekers, leading to sustained economic growth. However, the favorable age structure is changing, and around 2020, Malaysia started to become a rapidly aging society. As the population ages, Malaysia will need to better educate and train its labor force, raise productivity, and continue to increase the number of women workers in order to further develop its economy. Some 2.2 million people or about 6.5% of the population are over 65 years old. The 2022 median age in Indonesia is 29.2 years, some 5.4 years older than in 2000.

Malaysia is one of the most open economies in the world and is highly dependent on international trade. Openness to trade and investment plays a significant role in employment creation and income growth. As Malaysia shifts towards higher value-added activities, it aims to become a leading exporter of electrical and electronic products and components.

In November 2020, Malaysia signed the Regional Comprehensive Economic Partnership (RCEP), the world's largest trade agreement, together with other nine Southeast Asian countries, China, Japan, South Korea, Australia and New Zealand, generating nearly a third of global GDP. The pact is anticipated to enhance intra-regional trade and investment, strengthen regional value chains, as well as promote transparency and harmonization of technical regulations and standards. Additionally, Malaysia and the

United Kingdom (U.K.) set up a Joint Committee on Bilateral Trade and Investment Cooperation (JCBTIC) in 2020 to strengthen bilateral trade and investment ties.

The USDA Office of Agricultural Affairs, OAA, in Kuala Lumpur, reports that as Malaysia's economy begins to recover from COVID-19 impacts, U.S. exporters can find strong opportunities in the retail food and food processing sectors. While recovery may take longer in the hotel, restaurant and institutional sector (HRI) sector, Malaysians' love dining out and continued development of tourism will contribute to future growth in this area. With a highly urbanized population, growing per capita income, and a positive view of U.S. food products, Malaysia is an attractive market, provided that U.S. suppliers can navigate Malaysia's halal certification requirements and competition with other major food exporting countries

Malaysia is politically and economically stable and open to foreign trade. Transportation, communications, banking and health services are modern and efficient. It is one of the most developed nations in Southeast Asia. Over 60% of its population falls into the middle to upper income group of consumers; with 2021 GDP per capita income of US\$29,340 on a Purchasing Power Parity (PPP) basis.

Malaysia's multibillion-dollar food industry is driven by an expanding economy, increased consumer spending and a healthy tourism industry. Although the country's halal requirements complicate trade for certain products, Malaysia's trade and regulatory policies are relatively open and provide opportunities for a broad range of imported foods and beverages. Malaysia's total agricultural related product imports in 2021 reached US\$23 billion, roughly 6% of which was sourced from the United States.

Market Opportunities and Key Issues in the Malaysian Food Market

Market Opportunities

- U.S. food and agricultural products are trusted and perceived to be of high quality.
- The growing Malaysian Foodservice, Retail and Food Processing sectors require a wide range of imported food products and ingredients.
- Rising disposable income in Malaysia is driving demand for high quality imported food and beverage products.
- A large number of U.S.-style restaurants and cafés operate in major cities, enabling new-to-market U.S. products easier market acceptance.
- Most imported food and beverage products have low import and customs duties (except for alcoholic drinks).
- The high-end HRI segment maintains high standards of quality and hygiene, which is very positive for U.S. food and beverage prospects.

Key Issues

- Many U.S. products need to be halal certified in the Malaysian market, which can be a complicated process.

- Australia and New Zealand both have free trade agreements with Malaysia and have a strong presence in the country's consumer-oriented food and beverage market.
- In addition to strong competition from Australia and New Zealand, products from China and other ASEAN countries are gaining market share.
- Many U.S. exporters are unfamiliar with the market and therefore face an uphill battle to understand and meet specific requirements and order sizes. Competitors often have more experience with these requirements.

With a Muslim population of over 61%, the demand for halal foods by Malaysian consumers has increased over the years. The expectation of halal standard in food products have extended from meat and meat products to non-meat based products such snacks, confectionery, dairy, bakery, etc. Almost all food and ingredients destined for the food service sector must be certified halal. Halal is fast becoming recognized as a new benchmark for quality, hygiene and safety. Food products and ingredients that have halal certificates have added marketing value in Malaysia. Hence, most retailers, foodservice operators and food manufacturers are inclined to ask for halal certificates for non-meat based food products and ingredients.

U.S. exports of agricultural products to Malaysia grew 12% to US\$1.1 billion in 2021. U.S. exports of consumer ready products increased 19% to US\$603.5 million, or about 55% of the agricultural total. Malaysia is the 5th largest market in Southeast Asia for the export of U.S. processed food products, totaling US\$562.3 million in 2021, outstanding growth of 22% and a new record high. Top 2021 processed food exports from the U.S. to Malaysia included:

- Food Preparations & Ingredients
- Processed/Prepared Dairy Products
- Processed Vegetables & Pulses
- Non-Alcoholic Beverages
- Canned, Dried & Frozen Fruit
- Snack Foods
- Dog & Cat Food
- Chocolate & Confectionery

Retail Sector Highlights:

According to Euromonitor, retail sales in the packaged food market in Malaysia will reach US\$8.6 billion in 2022. That represents a growth rate of 18.3% or US\$1.3 billion since 2018. The forecast for growth in this market is also promising. By the year 2026, the retail sales in the packaged food market in Malaysia is expected to reach US\$10.7 billion, a growth rate of 24.7%, or another US\$2.1 billion from 2022. High growth categories in the forecast include:

- Sweet Biscuits, Snack Bars & Fruit Snacks
- Ice Cream & Frozen Desserts
- Confectionery

- Cheese
- Savory Snacks
- Rice, Pasta & Noodles
- Dairy (Ex. Cheese)
- Breakfast Cereals

FAS Kuala Lumpur reports that the Malaysia food retail industry is comprised of a range of large supermarkets/hypermarkets, convenience stores, “mom and pop” traditional stores, and specialty retailers. According to industry analysts, the Malaysian food retail sector was estimated at US\$18 billion in 2020, and is projected to grow 30% to US\$23 billion in 2025.

The sector has seen new players in the market, including WTF (What Tasty Food) retail, Qra Foods, and super-premium grocers such as Food Merchant. Meanwhile, convenience outlet MyNews plans to open 500 stores in the next five years. Existing brands in the market are also expanding and are also boosting their use of e-commerce and online channels. The food retail sector is dominated by the following players: Dairy Farm Group, Mydin Mohamed Holdings, Trendcell, Village Grocer Holdings, and AEON Group.

The Dairy Farm Group is Malaysia's largest food retailer (supermarkets and hypermarkets). Their retail format includes Giant, Cold Storage and Mercato supermarkets/hypermarkets. They procure from consolidators, distributors, local importers, and direct from exporters. Mydin Mohamed Holdings is a top retail chain in Malaysia (supermarkets). Their retail format includes Mydin supermarkets. They procure from consolidators, distributors, local importers, and direct from exporters.

Trendcell Sdn Bhd is the fastest growing premium food retailer in Malaysia. Their retail format includes Jaya Grocer supermarkets. They procure from consolidators, distributors, local importers, and direct from exporters. Village Grocer Holdings is a top retail chain in Malaysia (supermarkets). Their retail Format includes Village Grocer and Ben's Independent Grocer supermarkets. They procure from consolidators, distributors, and local importers, and direct from exporters. AEON Group is a top retail chain in Malaysia (supermarkets). Their retail format includes AEON, AEON Big, and AEON MaxValu supermarkets/hypermarkets. Procures from distributors, local importers, and direct from exporters.

While supermarkets overall struggled during 2021, some of the category's premium players recorded positive performances as they benefited from their focus on more affluent consumers. Malaysia's affluent upper-middle-class urban professionals and high-income elites have not been nearly as affected by the adverse economic impact of the COVID-19 pandemic as their less well-off compatriots, meaning that they have continued to demand premium grocery shopping experiences, irrespective of the higher cost that these entail. This has benefited premium supermarkets such as Mercato and Sam's Groceria, each of which registered positive sales growth over the course of 2021 at

the same time that their less prestigious rivals operating in the mainstream mid-price segment were struggling to manage falling demand and falling sales.

Indeed, Mercato and Sam's Groceria have opened three new stores between them since the onset of the COVID-19 pandemic, which can be seen as clear evidence of their strong appeal to higher-income consumers. This appeal is based mainly on the high quality and prestige of the merchandise that these retailers sell, with the wide range of novel and exciting foreign goods and brands that they carry comprising a key unique selling point for both Mercato and Sam's Groceria. One factor to consider is that the inability for affluent Malaysians to travel abroad during the COVID-19 pandemic has led many to demand exotic food experiences at home, supporting sales of the imported premium food brands carried by Mercato and Sam's Groceria.

Best Prospects:

Best product prospects for U.S. suppliers include those in the market with good sales potential. They are dairy, processed and fresh fruit, bakery goods, cereals and pasta, pork and products and beef and products and non-alcoholic Beverages.

Food Service Sector Highlights:

FAS Kuala Lumpur reports that prior to the COVID-19 pandemic, Malaysia's hotel, restaurant and institutional (HRI) industry was one of the fastest growing sectors in the country's economy, driven by robust tourism and increased consumer spending. However, due to the pandemic and ensuing movement control orders, the HRI sector experienced a major drop in business.

Tourism receipts declined 71.2% due to disruptions in demand as a result of travel restrictions and the closure of international borders by most countries. Food and beverage accounted for 18% of the US\$12.5 billion in tourism receipts. Despite the significant pandemic-induced slowdown, demand for high-quality imported food and beverage products remains strong. This is particularly the case for Malaysian imports of U.S. consumer-oriented food and beverage products, which increased 19% in 2021 compared to 2020, with a total value of \$603.5 million USD.

A rapidly growing and highly urbanized population is demanding fast and convenient food choices. Additionally, healthy and organic products are becoming very popular. Malaysia's relatively young and educated population traditionally enjoys eating out. To attract local and international Muslim tourism, the majority of hotels in the country (including international chains) maintain halal certification. American chain restaurants dominate Western cuisine options in Malaysia with at least 18 U.S. franchises in operation. Rapid expansion of the HRI industry throughout the country is expected to support steady growth in demand for imported high quality food and beverage products for the next several years.

FAS Kuala Lumpur advises that restaurants, bakeries, caterers, and airline food service providers are the main end-users in this sector, and a select number of importers specialize in providing raw materials and foods to these end-users. As the end-users often prefer to source most of their supplies, ingredients, and food from a small number of importers, U.S. exporters wishing to serve the HRI market should focus on these importers. Equally important, U.S. exporters should ensure that their products are halal certified. The end users' premises are themselves halal certified, so they will only handle products that are likewise halal certified.

Best Product Prospects:

Post advises that Malaysia has a dynamic hotel and restaurant industry, and changing lifestyles and growing middle class underpins demand. Key U.S. prospects for the HRI sector include dairy products, frozen potatoes, powdered milk, whey, sauce, citrus Fruit, almonds, cheese, chocolates, frozen chicken cuts, bread pastry and cakes and apple juices. Halal certification is essential. Halal and other technical barriers hinder meat and poultry export opportunities. Excellent opportunities for U.S. beef exist in the HRI sector provided the required Malaysian halal certifications can be obtained, including for processed fruit and fish products that will expand a wider potential market.

Food Processing Sector Highlights:

FAS Kuala Lumpur reports that the Malaysian food processing industry is expected to have positive growth in demand as it bounces back from the COVID-19 pandemic. Several multi-nationals have regional production facilities in and around Kuala Lumpur and the Government of Malaysia have identified the food processing industry as a critical sector for future economic growth.

Malaysia's food processing industry is predominantly Malaysian-owned and dominated by small and medium scale companies, though major multinational corporations also have a strong presence. Malaysia is highly dependent on imports of food and beverage products, especially raw materials for food processing such as wheat, dairy, and other food ingredients. According to the country's Ministry of Finance 2022 Economic Outlook report, the food manufacturing sector grew by 5.5% in 2020 and 8.9% in 2021. Beverage manufacturing sector activity declined in 2020 but recovered 9.4% in 2021.

Industry analysts have projected that the soft drinks and juice market alone in Malaysia is worth US\$2.1 billion and is set to grow by over 5% through the next three years, while the food market was estimated to grow to nearly US\$44 billion in sales by the end of last year. Inputs and raw materials for the Malaysian food processing industry are imported from a range of suppliers. Australia and New Zealand supply the majority of the ingredient products for the dairy processing plants, while China and Thailand are the top suppliers of poultry and processed fruits.

Many food products (e.g. beef or poultry) require halal certification in order to enter the country. Currently, the Islamic Development Foundation of Malaysia (JAKIM) is the

only authorized entity allowed to issue halal certification. In the United States, JAKIM has appointed three Islamic institutions to inspect and halal certify food and beverage products for export to Malaysia: the Islamic Food and Nutrition Council of America (IFANCA), Islamic Services of America (ISA), and the American Halal Foundation (AHF).

In March 2018, Malaysia implemented a measure that requires foreign producers and exporters of dairy products to apply for registration with the Malaysian Government. According to trade contacts, the Malaysian Government implemented this facility registration measure to improve the traceability of imported dairy products and to ensure imported dairy products were certified halal. Applications from dairy facilities with a history of exporting to Malaysia were given expedited review upon implementation of this statute while new to market suppliers were given standard reviews lasting a reported three to six months.

Both Malaysian and multinational companies are active in the sector. Multinational companies are often joint investments between foreign and Malaysian investments. Some foreign brands of food products are produced under license by Malaysian companies with the rights to market within specific geographical markets.

For some key food processing ingredients (wheat, soybeans, potatoes, dairy products, dried fruit, nuts), U.S. exporters face minimal competition from local producers as there is no local production. However, U.S. exporters face strong competition from Thailand, China, Australia, and New Zealand. Their products are competitively priced, and their proximity to Malaysia compared to the United States gives these countries an advantage in terms of delivery time and freight costs. Furthermore, Australia and New Zealand have an established halal food industry geared towards exports to Muslim markets.

Best Product Prospects:

FAS Kuala Lumpur advises that the top prospective U.S. food processing ingredient products for the Malaysian market include dairy, processed vegetables such as frozen potatoes, beef and beef products, tree nuts and processed fruits. Other key imported materials for the food processing sector include basic commodities such as processed fish and fish products, chocolate products and sugar confectionery, protein concentrates, yeast, sugar derivatives and syrup as well as sugar.